PREM 19/289

PART 2

Confidential Filing

Relations between Central and Local Government. Local Government Manpower The Local Government Planning and Land Bill.

LOCAL GOVERNMENT

Pt 1: May 79
Pt 2: November 79

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~26.11.79~~							
6.12.79							
~~7.1.80~~							
~~4.1.80~~							
~~17.1.80~~							
~~18.1.80~~							
~~25.1.80~~							
~~29.1.80~~							
~~5.2.80~~							
~~11.2.80~~							
~~26.2.80~~							
~~28.2.80~~							
Offlende							

PREM 19/289

PART 2 ends:-

PM to Horace Cutler 26 Feb 1950

PART 3 begins:-

Chem tx to Home Sec 28 · Feb · 1980

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
L(79) 86	23/11/79
L(79) 13th Meeting, Item 3	27/11/79
CC(79) 25th Conclusions, Item 1 (Extract)	13/12/79
MISC 28(80) 1	07/01/80
MISC 28(80) 1 Addendum	09/01/80
MISC 28(80) 2	07/01/80
MISC 28(80) 1st Meeting, Minutes	10/01/80
L(80) 3	17/01/80
L(80) 2nd Meeting, Item 2	23/01/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed Wayland Date 10 June 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Local Government, Planning and Land (No.2) Bill: draft
Published 16 January 1980

Signed PMWayland Date 10 June 2010

PREM Records Team

TMP

cc D ENVIR
Local gvt

10 DOWNING STREET

THE PRIME MINISTER

26 February 1980

Dear Horace,

Thank you for your further letters of 31 January and 13 February about the Local Government Planning and Land Bill.

As far as your letter of 31 January is concerned, I understand that you met Tom King on 7 February, and he is awaiting a note from you on the GLC's current substantial capital schemes in order to examine further your fears about the GLC's position in regard to the proposed abolition of the Money Bill procedure and Ministerial control of schemes of "national or regional importance". I have asked Michael Heseltine and Tom King to look at this matter very closely and I know they will respond to you as soon as they have been able to study that extra information.

In your letter of 13 February about the Bill's block grant proposals, you say that the Government will be committing itself to stating what the level of expenditure and rates should be for each local authority. This is not how we intend block grant to work.

Block grant will meet the difference between an authority's actual expenditure and the product of a "standard rate poundage" on the authority's rateable resources. The appropriate standard rate poundage for an authority will be derived from a schedule of such poundages, which correspond to the relationship between local authorities' actual expenditure and assessed "standard expenditure".

/There is clearly

RA

There is clearly some misunderstanding about what is meant by standard expenditure. This will replace the current expenditure needs assessments on which the needs element of RSG is distributed at present. It will not represent an arbitrary and subjective judgement about what each authority ought to be spending; it will be a formula-based assessment - worked out after consultation with the local authority associations - of the level of expenditure that all authorities with similar characteristics and circumstances would on average be likely to incur in order to provide a normal standard of service. So standard expenditure will not be a figure plucked out of the air. And it certainly will not constitute a directive from central government to a local authority telling it what it "should" spend; authorities will still be free to reach their own spending and rating decisions, as they do now. But the block grant mechanism - unlike the present system - will enable the Government to limit the national taxpayers' contribution by way of grant to authorities spending significantly beyond the level of standard expenditure.

Michael Heseltine has, as you know, indicated that he is willing to consider any reasonable scheme put forward jointly by the local authority associations which will achieve the above objective: he has now received from you and the associations your agreed alternative proposals. He is examining these as a matter of urgency and will be responding to you and the association chairmen as soon as possible.

Yours ever

Margaret

Sir Horace Cutler, O.B.E.

10 DOWNING STREET

PRIME MINISTER

You asked Tom King to follow up Horace Cutler's representations on the Local Government Bill.

Mr. King saw Sir Horace on 7 January, and suggests that you might now write to Sir Horace as in the attached draft.

G. Baldwin
Deputy Clerk
pp MAP

25 February 1980

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

22 February 1980

Dear Mike,

Thank you for your letters of 5 and 14 February enclosing copies of Sir Horace Cutler's letters to the Prime Minister of 31 January and 13 February about the Local Government Planning and Land Bill.

Mr King saw Sir Horace on 7 February as a follow-up to Sir Horace's earlier meeting with the Prime Minister about the GLC's capital fund, and took the opportunity of telling Sir Horace that the Prime Minister would not be replying to his letter of 31 January until she had had a report of this further meeting. Mr King is awaiting further information from Sir Horace before responding to his points on capital expenditure.

/ I now attach a draft reply for the Prime Minister to send to Sir Horace in answer to both letters.

Yours,

Peter

P J CASH
Private Secretary

M A Pattison Esq

DRAFT REPLY TO SIR HORACE CUTLER

1. Thank you for your further letters of 31 January and 13 February about the Local Government Planning and Land Bill.

2. As far as your letter of 31 January is concerned, I understand that you met Tom King on 7 February, and he is awaiting a note from you on the GLC's current substantial capital schemes in order to examine further your fears about the GLC's position in regard to the proposed abolition of the Money Bill procedure and Ministerial control of schemes of "national or regional importance". I have asked Michael Heseltine and Tom King to look at this matter very closely and I know they will respond to you as soon as they have been able to study that extra information.

3. In Your letter of 13 February about the Bill's block grant proposals, ~~in which~~ you say that the Government will be committing itself to stating what the level of expenditure and rates should be for each local authority. ~~seems to~~ This is not how we intend ~~indicate a somewhat erroneous impression of~~ how block grant ~~will~~ to work.

4. Block grant will meet the difference between an authority's actual expenditure and the product of a "standard rate poundage" on the authority's rateable resources. The appropriate standard rate poundage for an authority will be derived from a schedule of such poundages, which correspond

to the relationship between local authorities' actual expenditure and assessed "standard expenditure".

5. There is clearly some misunderstanding about what is meant by standard expenditure. This will replace the current expenditure needs assessments on which the needs element of RSG is distributed at present. It will not represent an arbitrary and subjective judgement about what each authority ought to be spending; ~~but rather~~ it will be a formula-based assessment - worked out after consultation with the local authority associations - of the level of expenditure that all authorities with similar characteristics and circumstances would on average be likely to incur in order to provide a normal standard of service. ~~Thus~~ So standard expenditure will not be a figure plucked out of the air. And it certainly will not constitute a directive from central government to a local authority telling it what it "should" spend; authorities will still be free to reach their own spending and rating decisions, as they do now. But the block grant mechanism - unlike the present system - will enable the Government to limit the national taxpayers' contribution by way of grant to authorities spending significantly beyond the level of standard expenditure.

6. ~~Nevertheless,~~ Michael Heseltine has, as you know, indicated that he is willing to consider any reasonable scheme put forward jointly by the local authority associations which will achieve the above objective; ~~and~~ he has now received from you and the associations your agreed alternative proposals. He is examining these as a matter of urgency and will be responding to you and the association chairmen as soon as possible.

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10 DOWNING STREET

PRIME MINISTER

Horace Cutler has lobbied you about the use of GLC's accumulated capital fund.

You saw earlier papers floating the idea that local authorities might be able to spend capital raised from assets without running up against public expenditure cash limits. The Chancellor has now concluded that most such expenditure cannot be taken out of normal public expenditure control (letter at B). Mr. Fowler's letter at A asks for greater flexibility, with the particular aim of preventing open war between the Government and Sir Horace on the GLC capital fund.

MAP

21 February 1980

CONFIDENTIAL

A

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON
SW1

20 February 1980

I must have a word with Horace Cutler this weekend.

Dear Geoffrey

Thank you for sending me a copy of your letter of 28 January to Willie Whitelaw about the treatment of local authorities' capital receipts in the control of expenditure.

As you know, the GLC are anxious to use capital receipts - both the considerable amount which they have accumulated in recent years and further substantial sums which they aim to secure from future disposals - to finance additional capital projects, many of them in transport. I have been discussing with Horace Cutler how worthwhile projects to assist the revival of Docklands can be developed and I am keen to work with him to produce a realistic package. But as I understand your letter, we should not be able, in dealing with the GLC Money Bill, to allow receipts already accumulated by the GLC (which I understand may amount to as much as £120m) to be used to finance any increase in their capital spending. I am clear from the exchanges I have had with Horace Cutler that he would regard this as a heavy blow, and we should need to consider with some care how such a conclusion might be put to him. I should be anxious, for my part, not to upset the understanding I have been trying to build with him on practical measures for improving Docklands' communications.

CONFIDENTIAL

Your letter indicates that there would be different treatment for future receipts which local authorities secure from disposals and spend as they arise. I would hope that in practice it will be possible to operate the new capital control system so that authorities can use future receipts at least partly to supplement and not merely to replace other sources of finance, so that they have a stronger incentive to dispose of assets. But I recognise that in order to control the PSBR firmly it is your intention that there should be some offsetting reduction in the total of local authority capital expenditure for capital expected to accrue during any particular year. I think that it would be useful to clarify how such reductions would be applied, since it is important for the management of local authority expenditure as well as for our dealings with Horace Cutler.

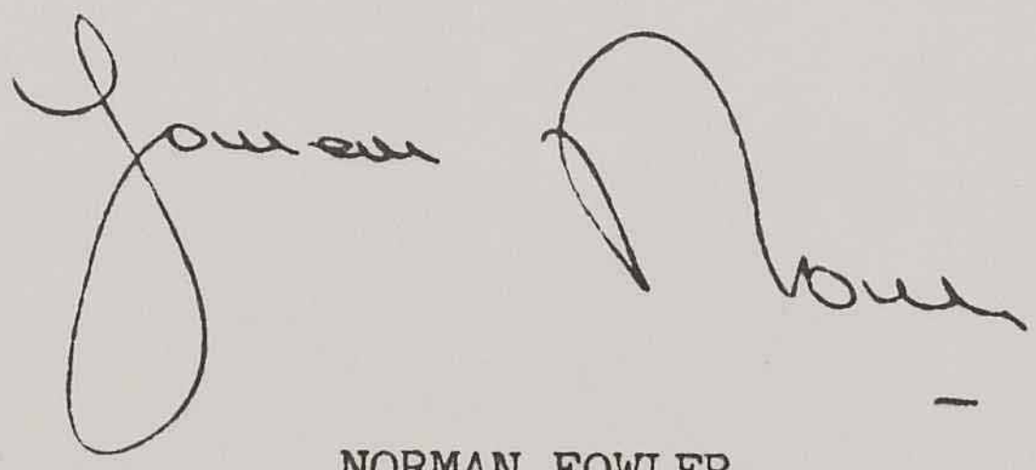
If there is to be an offsetting reduction in respect of future capital receipts on non-housing services, it seems to me that it would be best to apply it, and any reduction to offset the spending of accumulated past receipts, to the aggregate of local authority capital expenditure across all services. It would not, I believe, be possible to confine the reduction to those services where receipts were expected to be applied - to local authority transport investment, for example, to reflect the GLC's use of receipts to increase their transport programme. The control under the new system of capital controls will be over the total of each authority's spending and not on each service.

Moreover, to seek to apply the offsetting reduction to particular services could jeopardise the management of programmes if, for example, it allowed the GLC (who can raise more from disposals than any other single authority) to pre-empt capital resources from other authorities at their own discretion. It would not be right for other counties to suffer a loss of transport resources as the incidental effect of a decision about the use of London's capital receipts based on a general policy rather than transport priorities; and I do not think I should have grounds for trying to persuade the other authorities to cut their programmes further for this reason.

The alternative would be to apply any offsetting reduction to the capital spending of the authority which was expected to secure the receipts. Again, I think it could only be applied to the total and not to individual services because only the total is to be controlled. Though such an arrangement would be more equitable, it seems less attractive since it would mean that the GLC, for example, would in practice derive little or no benefit in increased expenditure from their capital receipts. This would seem perverse in view of our policy of encouraging the release of land and it would compund the difficulties with Horace Cutler to which I have referred.

I hope that it will be possible to clarify these further points quickly, so as to give us a firmer basis for discussions with Horace Cutler.

Copies of this letter go to the recipients of yours.



NORMAN FOWLER

MA

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

19 February 1980

Dear Geoffrey,

CONTROL OF LOCAL AUTHORITY CAPITAL EXPENDITURE: USE OF CAPITAL RECEIPTS

In your letter of 28 January 1980 to Willie Whitelaw you comment upon the implications for the PSBR, which were discussed at MISC 28, of the exclusion of spending met from capital receipts from the proposed control arrangements for local authority capital expenditure.

I recognise that delay in spending capital receipts would, if there is bunching, mean our over-estimating the PSBR in one year and under-estimating it in a later year thereby creating undue pressure, perhaps at a critical time. I suspect though that in practice this will not prove a problem. The sale of fixed assets by local authorities is comparatively small in relation to their total capital expenditure - just over 3 per cent in 1977-78 according to DOE's Local Government Financial Statistics. There will no doubt be increases following our drive for the sale of council houses and surplus land, but minor delays in spending capital receipts are unlikely to upset the general thrust of our monetary policy and given the limitation proposed on the use of housing capital receipts, I doubt if taking local authorities as a whole, there will be a dangerous overhang.

However, in view of the central importance of the PSBR, I accept that we should take the powers proposed in the Bill for use if necessary and should monitor what happens in practice. If a problem did arise, the extent to which allocations were adjusted would no doubt be a matter for discussion on the facts at the time. There would presumably be consultation between Departments and with the local authority associations.

I am grateful that you should have responded so promptly to the point I made in MISC 28.

I am copying this to recipients of your letter.

Yours ever

Patrick

file

RH

Local Govt.

BF 22/2/80

14 February 1980

I enclose a copy of a further letter to the Prime Minister from Sir Horace Cutler about the Local Government, Planning and Land (No.2) Bill.

I wrote to you with a copy of his last letter on 5 February, and you told me that Mr King expected to see him shortly.

Sir Horace's latest letter makes no reference to his conversation with Mr King. It may be necessary for the Prime Minister to write again now. I would be grateful if you could let me have a draft reply approved by Mr King by close of play on Friday, 22 February.

M. A. PATTISON

P J Cash Esq
Department of the Environment

File-

Rd

14 February 1980

I am writing on behalf of the Prime Minister to acknowledge your further letter of 13 February about the Local Government, Planning and Land (No. 2) Bill.

I will of course bring this to the Prime Minister's attention at once.

M. A. PATTISON

Sir Horace Cutler OBE

From **SIR HORACE CUTLER, O.B.E.**
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

c/f pps.

13 February 1980.

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Copy

Dear Margaret.

I wrote to you on 31 January acknowledging your letter of 29 January about the Local Government, Planning and Land (No. 2) Bill. As I said then, I do not wish to trouble you with detail, but, looking again at your letter and reading what Michael said on Second Reading, I do feel that I must come back to you in my protest against the Government's block grant proposal as it stands. You appear to have been advised that I and colleagues like me are opposed to measures designed to curb the expenditure of extravagant local authorities. This is not so.

I am fully in favour of a strict limitation on grant to individual local authorities and in no way should an authority be allowed to earn more grant by spending more. I am in favour of making it locally difficult and close to impossible for an individual authority to sustain a challenge against the Government's public expenditure policy. What I am opposed to is the Government's committing itself to state what the level of expenditure and rates should be each year for each local authority.

At the very best, this will achieve no more than my colleagues in local government propose. But more significantly, such a specific commitment gives a totally unnecessary hostage to the future.

The last accusation which could be levelled at our administration here is that we are 'soft' on public expenditure. We have consistently adopted the hardest possible line - and yet we have sustained and improved our industrial relations even to the point of instituting a disputes procedure. Our record over the period is probably unique.

We must be regarded as having some experience and expertise in these matters and therefore I find it sad that our main point - which is so clear - should be misunderstood. I still fear that we are heading for unnecessary and avoidable trouble on this issue.

Yours sincerely

Horace.

File

DSG

Local Govt

10 DOWNING STREET

From the Private Secretary

B/F 7-2-80
check w MAP

5 February 1980

Sir Horace Cutler has been writing regularly to the Prime Minister about the Local Government Planning and Land Bill. As you will know, he is most concerned that the proposals will limit the freedom of action of local authorities in general, and GLC in particular, because of the scale of its expenditure.

You will have received a copy of the Prime Minister's reply to Sir Horace dated 29 January, which was drafted by your Department. I now enclose a copy of Sir Horace's further letter of 31 January. I have not acknowledged this. The Prime Minister would like Mr. King to take the matter up with Sir Horace personally once again. I would be grateful if you could confirm to me that Mr. King is content to do so.

I am sending copies of this letter and enclosure to David Edmonds (Department of the Environment Private Office) and to Martin Hall (HM Treasury).

M. A. PATTISON

P. J. Cash, Esq.,
Department of the Environment.

10 DOWNING STREET

PRIME MINISTER

Horace Cutler will not give up on the subject of the impact of the Local Government Bill on the GLC.

Would you like to ask Tom King to take it up with him personally this time?

Yes please

MT

4 February 1980

From **SIR HORACE CUTLER, O.B.E.**
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

31 January 1980.

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Margaret,

LOCAL GOVERNMENT, LAND AND PLANNING BILL

You were good enough to write at length on 29 January. Since the GLC will be making formal representations to the Government I need not take up your time with detail, but I feel obliged to stress two points of special relevance to the GLC.

The first is the proposal in the Bill to sweep away our Money Bill procedure, thus depriving the House of one of their few standing opportunities to discuss London matters, and thereby substituting bureaucratic control for Parliamentary accountability.

The second is that, especially now that our mundane housing responsibilities are going, virtually every capital project we undertake will be "of national or regional importance", and presumably will be under total governmental direction: what role will we play?

I am sorry to have to say it but the Government is about to commit a series of blunders which will make the 1974 re-organisation look quite rational and modest. I really do feel that almost anything would be better than the Bill as it stands.

With best wishes
Yours ever
Horace.

CONFIDENTIAL

Copy on Transport file 79
Extension of Jubilee Line
Loc. Gov

10 DOWNING STREET

From the Private Secretary

29 January, 1980.

The Prime Minister has seen your letter of 25 January to me setting out the effect of the new capital control system on the GLC's future use of capital receipts.

The Prime Minister looks forward to learning of further progress on alternatives to the Jubilee line which are under discussion with Sir Horace Cutler.

I am sending copies of this letter to Martin Hall (HM Treasury), Genie Flanagan (Department of Transport) and David Wright (Cabinet Office).

M. A. PATTISON

KRB

P.J. Cash, Esq.,
Department of the Environment.

CONFIDENTIAL

FILE

LPO

cc DOE
HMT

10 DOWNING STREET

THE PRIME MINISTER

29 January 1980

Dear Horace,

Thank you for your letter of 17 January about the Local Government Planning and Land Bill. I understand your worries about block grant and capital expenditure but I think it important to understand what we are proposing to do.

You suggest that our block grant proposals represent a sledge-hammer to crack a nut and will be indiscriminate in their effects. I cannot accept this. This Government, with its commitment to cutting public expenditure, cannot stand by and allow a minority of authorities to maintain extravagant spending policies which pay no regard to the nation's economic circumstances. And we certainly cannot sustain a rate support grant system which actually gives more grant to those authorities at the expense of the prudent majority. You suggest that we should try to devise some means of singling out individual over-spending authorities year after year for special treatment. This would pose enormous practical difficulties and would be far more arbitrary than block grant. It would also breach the principle that the grant should be distributed in accordance with general principles.

The problem caused by overspending authorities is not the only reason for introducing block grant. The current arrangements heavily obscure the role of central government grants in local finances and provide no indication for the ratepayer as to whether his authority's expenditure is reasonable or not. Block grant will mean considerable changes in this respect. It seems to me that in opposing block grant, local government is in danger of appearing unwilling to face increased

/accountability

accountability to its electors.

On capital expenditure, as you know Michael Heseltine saw Richard Brew and explained personally the radical revisions which we have made. I hope that the announcement has reassured you that the Government is not simply imposing new bureaucracy-inspired control on local government. On the contrary local authorities will have a freedom that they have never had before to determine their own priorities for capital spending. There are really only two exceptions to this - a ceiling on an authority's total capital expenditure and special treatment for schemes of national or regional importance.

As examples of this freedom, local authorities may use their capital expenditure allocations for any service or purpose they wish. They will be able to use capital receipts from the sale of assets (including 50 per cent of housing receipts) as they wish. Project controls will be very substantially reduced: Michael Heseltine has already announced the scrapping of Parker Morris standards and the housing cost yardstick.

Even the control on total capital spending will not be operated rigidly. Each authority will have a duty to keep its spending within set limits but overspending will not be unlawful unless a direction has been made saying that a local authority must not exceed its ceiling without consent. Such a direction would not be made unless absolutely necessary - certainly not in the case of marginal or accidental overspendings. Indeed Michael has said that no authority need fear having a direction made against it if it genuinely tries to keep within its ceiling.

We have to keep a control on total spending because of our duty to secure a proper balance in the use of capital resources between the public and private sector and between individual local authorities. Within the constraints imposed by this we are going further than any previous government in increasing the power and responsibility of local government in relation to capital spending and reducing interference by central government. I hope our friends in local government appreciate this.

Yours ever

Margaret

Sir Horace Cutler, O.B.E.

B

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

28 January, 1980

R 28/1

Dear William

CONTROL OF LOCAL AUTHORITY CAPITAL EXPENDITURE:
USE OF CAPITAL RECEIPTS

When MISC 28 discussed the proposed new controls on local authority capital expenditure, it was suggested that expenditure of capital receipts had no effect on the PSBR; and that, since the Government were no longer pursuing Keynesian policies of demand management, it might be right to leave out of account the expenditure of capital receipts when fixing public expenditure allocations. I agreed to consider the use of capital receipts by local authorities in relation to the control of public expenditure and to public sector financing.

Our major concern in economic management is firm control of the money supply. The PSBR, which is the balance between the expenditure and the income of the public sector, has a major influence on the money supply. Local authority capital receipts are part of this income in the year they are received. Therefore, regardless of Keynesian demand management, the level and timing of receipts is important for economic policy.

For this reason, capital receipts are taken into account in planning and controlling public expenditure. This is measured net of the proceeds of sales of land and buildings etc. (reflecting the corresponding definition in the national accounts). If these proceeds are spent in the same year, the net effect on public expenditure and the PSBR in that year is therefore nil.

The new capital expenditure controls are intended to contain the aggregate of net capital spending by local

/authorities

The Rt. Hon. William Whitelaw, M.P.

authorities within the annual national cash limit. It is therefore envisaged that (except in the special case of housing discussed below) expenditure allocations to local authorities should be made on the basis of the net public expenditure provision for the year expressed in cash terms, which takes account of expected sales of capital assets.

Local authorities will be able to supplement these allocations from capital receipts, subject to two qualifications:

(i) Schemes of national or regional importance will require specific Ministerial sanction.

(ii) In the case of housing, half of the expected capital receipts will be distributed to local authorities as a whole on the basis of need. Thus, annual expenditure allocations for housing will be based on an amount halfway between the net and gross PES provision. Individual authorities will be allowed to augment these allocations by half of their capital receipts.

This treatment of capital receipts is the same as now, except in two respects:

(i) At present, capital expenditure on housing is controlled on a gross basis, so that effectively all expected capital receipts are distributed in the allocations.

(ii) GLC capital expenditure, however financed, is at present controlled through the annual Money Bill procedure. This will no longer be the case when the new system comes into effect.

However, this degree of local authority freedom to use capital receipts without restriction creates a potential problem for the annual control of public expenditure and the PSBR, which is necessary for reasons of economic management. If local authorities save up capital receipts and spend them on capital projects in later years, this could lead to overspending on the relevant cash limit and extra pressure on the PSBR in those later years. There is no reason to expect that economic and monetary objectives will allow any increase in the overall plans for local authority capital spending to make room for the use of capital receipts which have been saved up in this way.

/It is therefore

It is therefore important that the amount of capital receipts should be monitored centrally and any potentially dangerous overhang of unspent receipts identified. If there is evidence from local authority expenditure plans or returns that this is likely to lead to overspending, it will be necessary to consider under-allocation to local authorities of the net provision for the year to allow for this. If in practice it turned out to be impossible to contain net annual spending within the cash limit by this means, it would be open to us under the legislation to modify the freedom which we at present envisage for local authorities to use capital receipts to supplement allocations without restriction as to amount or timing.

I am sending copies of this letter to the Prime Minister; to the other members of MISC 28; to Mark Carlisle, Patrick Jenkin and Norman Fowler; and to Sir Robert Armstrong.

(GEOFFREY HOWE)

10 DOWNING STREET

PRIME MINISTER

Mr Heseltine's office suggest this reply to Sir Horace Cutler

MAP
28/1

CONFIDENTIAL

Copy on Transport June 79 2
Extension of Jubilee Line

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

25 January 1980

PRIME MINISTER

x is the crux of the position on Sir Horace Cutler's capital fund

MAP 28/1

Dear Mike,

GLC CAPITAL FUND

I promised, when we spoke last week, a further interim report on Sir Horace Cutler's approach about the use of the GLC's capital receipts.

The Chancellor of the Exchequer has yet to respond to the suggestion in MISC 28 that the use of local authorities' capital receipts should not count as public expenditure, but according to existing public expenditure conventions spending from receipts is clearly no different from any other spending. Under the present control system the GLC's capital expenditure, however it is financed, is limited to the ceilings in their Money Bill, (which they have to present to Parliament under the provisions of the London Government Act 1963) and these ceilings are agreed in relation to the national public expenditure resources available for each service and to the allocations which Government Departments wish to make to other local authorities.

x| Under the new system, from April 1981, the GLC will be able to use capital receipts to supplement their expenditure allocations, although schemes of national or regional importance will still be subject to special control even if they are financed from capital receipts. Nevertheless, although all individual authorities will have this freedom, we have assumed that in accordance with usual PESC practice the use of capital receipts could not be allowed to increase public expenditure nationally above planned levels.

CONFIDENTIAL

Furthermore, as pointed out above, the new system will not come into operation until 1 April 1981, and Sir Horace was, I believe, concerned to commit resources before then.

However, Mr King understands that Mr Fowler's discussions with Sir Horace went quite well and you have seen that it is intended to pursue the light rail option which has been identified. Mr King will keep in touch with Mr Fowler on this point and will continue to look at other possibilities. He will report to the Prime Minister as soon as possible.

Copies of this letter go to John Wiggins (Treasury), Genie Flanagan (Transport) and Martin Vile (Cabinet Office).

Yours

Peter

P J CASH
Private Secretary

M A Pattison Esq

Type draft for PM.

2 MARSHAM STREET
LONDON SW1P 3EB

Local Gov MAP 287

My ref:

Your ref:

25 January 1980

Dear Mike

You wrote to David Edmonds on 17 January seeking a draft reply for the Prime Minister to send to Sir Horace Cutler's letter of the same date, about the capital control provisions in the Local Government Bill. This I now enclose; I am sorry that we did not meet your deadline of 23 January.

I am copying this to Martin Hall (Treasury).

Yours sincerely

Paul Bristow

P N BRISTOW
Private Secretary

Mike Pattison Esq

DRAFT REPLY FOR THE PRIME MINISTER TO SEND SIR HORACE CUTLER

Thank you for your letter of 17 January about the Local Government Planning and Land Bill. I understand your worries about block grant and capital expenditure but I think it important to understand what we are proposing to do.

You suggest that our block grant proposals represent a sledgehammer to crack a nut and will be indiscriminate in their effects. I cannot accept this. This Government, with its commitment to cutting public expenditure, cannot stand by and allow a minority of authorities to maintain extravagant spending policies which pay no regard to the nation's economic circumstances. And we certainly cannot sustain a rate support grant system which actually gives more grant to those authorities at the expense of the prudent majority. ~~It would not be right to~~ You suggest that we should try to devise some means of singling out individual over-spending authorities year after year for special treatment. ~~as you suggest, since this~~ would breach the principle that the grant should be distributed ~~in accordance with~~ in accordance with general principles. Such an approach would ~~, in any case~~ This, pose enormous practical difficulties and would be far more arbitrary than block grant. It would also

NP. The problem caused by overspending authorities is not the only reason for introducing block grant. The current arrangements heavily obscure the role of central government grants in local finances and provide no indication for the ratepayer as to whether his authority's expenditure is reasonable or not. Block grant will mean considerable changes in this respect. It seems to me that in opposing block grant, local government is in danger of appearing unwilling to face increased accountability to its electors.

On capital expenditure, as you know Michael Heseltine saw Richard Brew and explained personally the radical revisions which we have made. I hope that the announcement has reassured you that the Government is not simply imposing ~~a Treasury-inspired~~ a new bureaucracy-inspired ~~bureaucratic~~ control on local government. On the contrary local authorities will have a freedom that they have never had before to determine their own priorities for capital spending. There are really only two exceptions to this - a ceiling on an authority's total capital expenditure and special treatment for schemes of national or regional importance.

As examples of this freedom, local authorities may use their capital expenditure allocations for any service or purpose they wish. They will be able to use capital receipts from the sale of assets (including 50% of housing receipts) as they wish. Project controls will be very substantially reduced: Michael Heseltine has already announced the scrapping of Parker Morris standards and the housing cost yardstick.

Even the control on total capital spending will not be operated rigidly. Each authority will have a duty to keep its spending within set limits but overspending will not be unlawful unless a direction has been made saying that a local authority must not exceed its ceiling without consent. Such a direction would not be made unless absolutely necessary - certainly not in the case of marginal or accidental overspendings. Indeed Michael has said that no authority need fear having a direction made against it if it genuinely tries to keep within its ceiling.

We have to keep a control on total spending because of our duty to secure a proper balance in the use of capital resources between the public and private sector and between individual local authorities. Within the constraints imposed by this we are going further than any previous government in increasing the power and responsibility of local government in relation to capital spending and reducing interference by central government. I hope our friends in local government appreciate this.

Original on
Transport June 79
extension of Jubilee Line

CONFIDENTIAL

FILE

Local Govt

VLB

cc DOE
HMT
DOE - min
CO

18 January 1980

The Prime Minister has seen Mr. Fowler's minute of 16 January about the Jubilee Line.

As you know, the Prime Minister's strong preference is that the GLC should use its accumulated capital fund for rejuvenation in Docklands, and she shares the doubts of her colleagues about the present Jubilee Line proposals. Nevertheless, the Prime Minister would wish to establish clearly the nature of the controls affecting the use of the GLC capital fund before the Government gives a final verdict to the GLC on any individual proposals for use of the money.

Following her meeting with Sir Horace Cutler about these matters on 3 December, the Prime Minister asked Mr. Tom King to pursue this wider issue. I understand that the final capital control provisions for local authorities are likely to be announced next week, and the Prime Minister wishes to await Mr. King's further advice on the implications for the GLC before she is ready to endorse any final statement to GLC that the Government will veto the Jubilee Line proposals.

The Prime Minister wishes the GLC to be able to use its capital fund for capital purposes, and would not want this money to disappear into general revenue. She therefore hopes that Mr. Fowler will further encourage Sir Horace to consider alternative capital proposals, and she hopes that some progress can be made towards more acceptable ideas. She would be interested to know the outcome of Mr. Fowler's meeting with Sir Horace, and she would be ready to consider these issues further once the GLC has been informed of the new capital control provisions, and once the Government has reached decisions about the treatment of local government capital resources for public expenditure purposes.

I am sending copies of this letter to David Edmonds (Department of the Environment), John Wiggins (H.M. Treasury), Peter Cash (Mr. Tom King's office, Department of the Environment) and Martin Vile (Cabinet Office).

(SIGNED) M A PATTISON

Mrs. E. C. Flanagan,
Department of Transport.

VLB

FILE RH

17 January 1980

I am writing on behalf of the Prime Minister to acknowledge your letter of 17 January about the Local Government Bill.

I will, of course, bring this to the attention of the Prime Minister immediately and a reply will be sent to you as soon as possible.

M. A. PATTISON

Sir Horace Cutler OBE

FILE Local Govt. Bill.

B/F 23.1.80

B/C R Ryder
Press Office

17 January 1980

Your Secretary of State has received a copy of Sir Horace Cutler's letter of 17 January to the Prime Minister about Capital Control Provisions of the Local Government Bill. I attach a further copy for ease of reference.

I would be grateful if you could let me have a draft reply for the Prime Minister to consider, approved by your Secretary of State, by close of play on 23 January.

I am sending a copy of this letter and enclosure to Martin Hall at the Treasury.

David A Edmonds Esq
Department of the Environment

2

10 DOWNING STREET

PRIME MINISTER

Here is a letter from Sir Horace Cutler about Capital Controls. You have already heard his arguments expressed by Sir Frank Marshall.

I have asked that Mr Heseltine should suggest a draft reply.

MAP

I don't understand exactly what he is objecting to in the Bill

MT.

The draft reply will clarify.

NFA for now

MAP 21/1.

17 January 1980

From **SIR HORACE CUTLER, O.B.E.**
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London, SW1

17 January 1980

Dear Margaret,

I very much regret having to write to you about the Local Government Bill. I am, however, alarmed by indications I have from colleagues that, even after all the efforts of Michael and his Ministers during the Recess, the Bill to be brought into the Commons does not materially differ from the Bill withdrawn from the Lords in two significant respects. These are the rate support grant proposals and the capital spending controls. If my understanding of the present form is correct, I think that the Party is in for very great trouble - both in the immediate future and later, when the provisions begin to bite locally.

Peter Thorneycroft's invitation means that I must raise this at today's meeting of the National Executive. I shall try to do so with restraint but there should be no doubt about the strength of feeling I detect around me.

We must remember what we are trying to do. Local government has not a bad record in responding to Government in containing, (and even expanding), its current expenditure generally or on specific services. Even Michael has 'expressed confidence in the ability of local authorities to adjust to lower levels of expenditure as they had demonstrated they could do in 1976-77'. He also said, and again I quote from the Consultative Council, 'Government is fully conscious of the need to preserve the goodwill of local authorities generally'.

If in trying now to control a very small number of authorities we were to concentrate on change from one year to the next, an elaborate central machinery would not be needed. The offending authorities would identify themselves by their own actions, the Government would not be the initiators of widespread differences of opinion and potential conflict, and action would concentrate on the wrongdoers and leave alone the vast majority of compliant authorities. The indiscriminate sledge-hammer designed to crack a nut will hit friends as well as others and is not consistent with statements, again quoted from Government in the Consultative Council, that 'measures.....would come into effect only if individual authorities abused the trust put in them'. Only 'a tiny handful who deliberately flouted Government policy' would be affected.

The absurdity of the process now proposed is well-exemplified in London. On recent internal Government exemplifications the City of London appears to be spending more than four times the amount it should. If that is explained away by Government in the future as it will have to be in terms of the special features of the City of London, the Government will be seen to be partial. Many other local authorities regard themselves as special, particularly in London, and it is just not possible to be seen to be dealing fairly with each one of them on the basis of a single central process. Without an unacceptable arbitrariness it is not possible to define or hit authorities which intuitively merit the label of over-spenders even if local government is prepared to accept the major shifts in autonomy and accountability involved in what is now described as a new block grant.

On capital spending, we seem to be seeking a Treasury counsel of perfection, again without having counted the cost of a central bureaucracy or of a shift of responsibility.

The Bill is bound to be opposed by the Opposition; urgent though its reintroduction may be, it should at least start with the greatest possible degree of unity on the part of those who support the Government. Time should be found now to ensure that only defensible propositions are put forward in Parliament. Although this may be more difficult today than it was yesterday - because so much seems already to have been said in Parliament on the Rate Support Grant Order - I hear the alarm bells ringing too loud and clear for comfort.

With very best wishes

Yours sincerely

Horace.

(SIR HORACE CUTLER)

PS I am copying this letter to Michael Heseltine and Lord Thorneycroft

2

local Govt.

PRIME MINISTER

Here are the minutes of Mr. Whitelaw's MISC Meeting, which was foreshadowed at your local government discussion on Tuesday.

Two points of interest:

- Mr. Carlisle set out the case for retaining education expenditure as a separate block, but eventually concurred in a decision to operate with a single block.

- The discussion about use of capital receipts (with the Jubilee Line as a case in point) led to the conclusion that the spending of capital receipts might properly be removed from the present public expenditure control system, as they have no direct effect on PSBR.

Do you want to ask the Home Secretary about the education decision when he comes on Monday morning?

No

11 January, 1980.

MAP

f/c master set

CONFIDENTIAL

cc Mr Ryder
Mr Wolfson
Ia

f/c Waste in Local Govt - Mayfly

MAP Local Govt

NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 1700 ON 8 JANUARY 1980 TO DISCUSS THE RELATIONSHIP BETWEEN CENTRAL AND LOCAL GOVERNMENT

Present: Prime Minister
Home Secretary
Secretary of State for the Environment
Secretary of State for Social Services
Secretary of State for Education and Science
Chief Secretary to the Treasury
Lord Thorneycroft
Sir Frank Marshall
Mr. Clive Whitmore
Mr. Michael Pattison

The Prime Minister recalled that the Chairman of the Party had written to her in November about the concerns expressed by representatives in local government. She invited Sir Frank Marshall to outline the position. Sir Frank Marshall said that he had encountered a range of problems in travelling around local authorities. Initially, reductions in public spending had caused difficulty, but these were now being overcome. He had recently put three questions to the Conservative controlled councils in England and Wales. He had asked what had been done to reduce expenditure, first in percentage terms and secondly in cash terms, and thirdly what would be done to reduce manpower in the current year. He had a 64% response. They had responded manfully to the requirement for cuts, and many had gone further than instructed by central government. The results were now being correlated. Mr. Heseltine had seen a first draft of the results, and this was now being revised. In the Autumn, the matters of concern to local government were essentially the financial provisions of the Bill, especially on the block grant and capital controls. The overwhelming opinion of the local authorities was that these would result in a strong centralisation trend to the detriment of local autonomy. The three associations had come down against the proposed changes. In Sir Frank's view, the real problem was that there had been insufficient time for consultation, and the time available had been ill-used. These central/local issues could only be resolved in a process of give and take, and there had not been enough give from central government. Ministers were now engaged in campaigning

CONFIDENTIAL

/ about

about the changes, and this would probably win greater agreement. He was confident that both points could be resolved.

The Prime Minister commented that Conservative councils had long pressed for a unitary grant arrangement. There had been many complaints about the inequity of the existing system. Sir Frank Marshall said that the block grant would replace two key elements of the existing rate support grant. Many Conservative authorities felt that the changes were being introduced to catch a few extravagant Labour controlled authorities, and that this was insufficient reason for imposing new controls on all authorities. They believed that the true decision on allocation of money between alternative uses would now be removed from the grass roots to Whitehall. He accepted that this would be true of capital expenditure, not revenue expenditure, but in effect this would result in Whitehall prescribing the use to which the councillors should put their revenue. Mr. Carlisle commented that the changes would require central government to assess local authority needs. This was theoretically required under the current system, but in practice need had been assessed by what the authorities spent.

Mr. Heseltine said that the new system had yet to be finalised. The methodology for calculating local authority needs was now the subject of consultation. The local authorities had objected to the old system, and he had therefore invited them to say what they wished to replace it with. He had personally seen 150 local authority leaders in the past 24 hours, and had found that opposition to the changes were based purely on ignorance. Sir Frank Marshall commented that this arose from poor consultations. There had been a Consultation Paper on the capital provisions but none on the block grant.

The Prime Minister stressed that the Government were responding to demands from the local level. It was now necessary to sell the changes properly. She recognised that local officials - as opposed to local politicians - were stirring up resistance, but it was the job of the elected central government, not paid local officials, to provide leadership. Mr. Heseltine commented that the reactions of councillors were based on briefing from their permanent officials. The new system would allow much more light into the operations of local government, which many officials resented. Every local

/ authority

authority group leader had been invited to meet one of his Ministers over the next ten days. In his view, there was no substantive hostility to the block grant arrangement, although there were difficulties on capital controls. Sir Frank Marshall concurred.

The Prime Minister expressed concern about how some authorities might take advantage of the capital control changes. This was why there must be an ultimate right of Whitehall to call in proposals. Mr. Heseltine pointed out that any capital spending now required the submission of at least six different forms to his Department. He agreed that the consultation on changes could have been better. He intended to put this right now. His packages of legislative and administrative changes would pull Whitehall out of a great deal of detailed control. A MISC group of Ministers, chaired by the Home Secretary, was meeting tomorrow to finalise arrangements. He was confident that he had now reached agreement with the Treasury, although his colleagues in spending departments had not yet had a chance to take a final view of the proposals. Overall, the new arrangements would provide the most exciting deal local authorities had ever had. He intended to have only a single capital block for each authority, with the exception of services supervised by the Home Office. Each central spending department would allocate funds for its services, and the local authority could handle the total allocations as one block. There would be powers to vire, to transfer funds between different authorities in some circumstances, to roll over between years, and to use receipts at local discretion. The one significant control would be a rigid overall ceiling. Taking housing as an example, authorities would now prepare submissions for their councils in a common form, and this would be more informative for the elected representatives, would be published to the public benefit, and would be copied to his regional office, who could intervene in extremis, but who would normally take no part in the decision. Cost yard sticks would go. But in cases where the prepared figures showed that there would be no return on the investment, the Department would enter the discussion, and would have formidable back-up powers.

/ Mr. Carlisle

Mr. Carlisle said that he and the Minister of Transport had not accepted the single block arrangement. He would argue for a guaranteed core of education expenditure, allowing the authority scope to vire to or from education only on a very limited scale. He could not accept that the police and courts should get their own block of funds whilst education did not.

In further discussion, the Prime Minister observed that the local education authorities differed in law from other local authorities, and had statutory duties to fulfil. For this reason, she felt that Mr. Carlisle had a strong case. But even with five sub blocks, local authorities would have much greater freedom than before.

The Prime Minister was concerned that the reduction in regulation of local authorities would not be accompanied by compensating manpower reductions. Sir Frank Marshall wanted to know how capital expenditure would be defined. Mr. Heseltine said that there would be de minimis provisions, but he had not yet cleared final proposals. Sir Frank Marshall was encouraged by the discussion, much of which had not been made clear previously. Nevertheless the ultra vires rules of capital over-spending were still a personal threat to individual councillors. Mr. Biffen confirmed that the Treasury were broadly content with the new proposals, and that the remaining difficulties were those outlined by Mr. Carlisle. Mr. Heseltine drew attention to the fundamental democratic issue of whether local authorities made decisions or were effectively branch offices of Government. Mr. Carlisle acknowledged that Mr. Heseltine's paper now went a long way to meet his difficulties. Mr. Jenkin thought that the real issue was when sanctions would become operative on authorities. The system should include a warning shot. Mr. Heseltine confirmed that he would reserve the right to impose the full disciplines of project control if a local authority became unacceptably extravagant.

The Prime Minister hoped that this discussion had been helpful to the Home Secretary in clarifying the issues to be taken at the MISC group on 10 January.

/ Lord Thorneycroft

Lord Thorneycroft stressed the political dimension of these problems. The Conservative Party was losing half the seats it fought at local level. They would lose control of the AMA in May. The Department of the Environment paper on capital controls had worried the local authorities, perhaps unnecessarily. Mr. Heseltine was now making a tremendous effort to retrieve the situation - only recently he had been told that convention prevented Mr. Heseltine speaking on local election platforms, although this had now been overturned. Central government had to work with the local authorities. The Government still had some pluses to use for local elections, such as the Housing Bill, manpower savings in some areas and perhaps the Local Government Bill. All these must be used to the full to help the Party hold on to a few more seats. The Prime Minister stressed that housing, mortgage costs, and rates would determine elections.

The Prime Minister asked what could be done to control and reduce local authority manpower. Sir Frank Marshall saw this as the only true means to reduce public expenditure at local level. But many authorities had inherited "no redundancy" agreements from their Labour predecessors. There were success stories which he had passed to Mr. Heseltine. Mr. Heseltine disagreed with Sir Frank Marshall's analysis. He was advised that the 1½% cut back sought the previous year would not be achieved. Local officials continued to run rings around local politicians. Sir Frank's figures showed no manpower saving in a great many authorities. Sir Frank said that financial arrangements for redundancy would have to be considered. Mr. Heseltine said that central government had achieved reductions without redundancies. But during the freeze on local government manpower, 30,000 had left whilst 29,000 had been recruited. Conservative Governments in the recent past had a poor record on local authority manning levels. Sir Frank Marshall argued that central government tended to leave much of its policy to be implemented at local level. Mr. Heseltine outlined the difficulties in getting accurate figures on manning in individual authorities. Lord Thorneycroft confirmed the lack of facts. Part of Mr. Heseltine's Bill was intended to counter this. Mr. Carlisle found current trends in his field more encouraging. The Shire counties would achieve up to 1½% against the

/3% saving

3% saving sought this year. For next year, having longer notice, they would probably reach the 5% target.

Mr. Whitelaw drew attention to the attitude of some local Conservative Party organisations to their links with national politicians. In the distant Shires, the local authorities did not see themselves as the arm of Conservative central government. They preferred to regard themselves as divorced from the dirty business of politics. Lord Thorneycroft accepted this, but stressed that the only real options were either to work with local government as it existed, or slowly to eliminate it. He pleaded that, in all decisions in a difficult period, Cabinet Ministers should keep firmly in mind electoral opinion - especially at local level - as they reached decisions. The Prime Minister emphasised the need to ensure that the best local authority practice was made widely known.

The meeting concluded at 1815.

MAP

9 January 1980

Local Government

PRIME MINISTER

You saw these papers, for tomorrow's local government meeting, over the weekend.

We have invited the Chief Whip to attend if he is back in London by 5 p.m., as the meeting is essentially about party/government relations. He was one of Sir Frank Marshall's channels of communication during the negotiations on the Local Government Bill. Ministers meet on Thursday to decide on clause deletions, and to consider capital controls.

MAP.

7 January, 1980.

PRIME MINISTER

On Tuesday, you have a long-scheduled meeting with Lord Thorneycroft and Sir Frank Marshall from the Party side, and Ministers with local government responsibilities.

In practice, you have already gone into the key issues in your series of meetings in December about the Local Government Bill. The Thorneycroft/Marshall views were there represented to you by the Home Secretary and the Chief Whip, and Mr. Heseltine had a chance to reply. But I think the meeting remains necessary, as Lord Thorneycroft and Sir Frank have not had an opportunity to express their views for themselves to you in the company of Ministers directly involved. You have already seen the papers at flag B by Lord Thorneycroft and flag C in response by Mr. Heseltine; flags D and E are our records of the two meetings on the subject in December. The only new material is at flag A, a paper from Sir Kenneth Berrill and Sir Derek Rayner about efficiency and waste issues in local government - you agreed that this meeting would be a useful opportunity to take these up.

See local Govt (waste)

Attendance

In addition to Lord Thorneycroft and Sir Frank Marshall, Messrs. Whitelaw, Heseltine, Carlisle, Jenkin and Biffen (in the absence of the Chancellor) will come.

Handling

As you have called the meeting in response to Lord Thorneycroft's request, you might like to invite him and Sir Frank Marshall to speak to their paper, and then allow Mr. Heseltine to respond. As you know, he has been working hard to sell his ideas to the regions in the Recess, and he may be ready to report the feedback to you.

If it becomes clear that Lord Thorneycroft and Mr. Heseltine have made peace on the central/local relations issue, you could bring in the efficiency issues discussed in the Berrill/Rayner paper.

MAP

4 January 1980

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4th January, 1980

Dear Mike,

MEETING ON RELATIONS WITH LOCAL GOVERNMENT

As I mentioned to you on the telephone, the Chancellor expects to be in the Hague on Tuesday, 8th January, in order to press our case, along with the Lord Privy Seal, on the Netherlands Government. He very much regrets therefore that he will be unable to attend the meeting the Prime Minister has called for 5.00 p.m. that day. He does however regard it as important that a Treasury Minister should be present, and would be very grateful if you could arrange for the Chief Secretary to be invited.

Yours ever,

MH

(M.A. HALL)
Private Secretary

M. Patterson, Esq.,
10, Downing Street

10 DOWNING STREET

Caroline

Can we check that those invited by the PM's letter of 26 Nov (at flag) are coming, as Mr Whitelaw's office seem to have overlooked the invitation?

Mike

2/1.

Local Govt
MAP

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

28 December 1992

Dear Michael

In your letter of 17th December about control of local authority capital expenditure you invited reconsideration of the exclusion of police, magistrates' courts and probation expenditure from the Bill, in the light of the proposed modifications of the package to provide for a single block allocation instead of five separate ones.

As you know, however, our grounds for keeping these three services out of the Bill were, and still are that, given the continuing need for me to maintain a measure of control over the deployment of capital allocations as between authorities for the law and order services so as to ensure that resources are concentrated in the areas of greatest need; given also the mis-match between providing authorities and the very uneven spread do demand across all three services, a separate block allocation for Home Office services either outside the proposed allocation system or as a protected element within one of the other blocks would be equally unworkable.

These difficulties would arise equally whatever the size of the block allocation in which the police, courts and probation element were to be inserted. In short, the case for the exlusion of these three services from the package and from the Bill itself would not seem in any way affected by the changes proposed in your letter. This is the line that we expect to take with the local authority associations if and when they decide to follow up with us the intention that they declared earlier on of resisting the Home Office exclusions from the original package. On this, as you may know, they have not yet apparently decided on the line that they wish to take.

I am copying this letter to the recipients of yours.

Yours
Kenneth

The Rt. Hon. Michael Heseltine, M.P.

SP

010

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Michael Heseltine MP
The Secretary of State for
the Environment
2 Marsham Street
LONDON SW1

27 December.

P.

28/12

Dear Secretary of State.

CONTROLS OVER LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for sending me a copy of your letter of 17 December to Geoffrey Howe.

My officials have reported the outcome of the meeting with the local authority associations on 27 November and the interdepartmental meeting on 19 December. I understand that the modified scheme described in your recent letter may be changed in important respects because you have now decided against a control which would put authorities outside the law if they inadvertently exceeded their cash limit in a particular year. Until I have seen your fresh proposals I will confine my comments to two of the concessions mentioned in your letter which I believe you still regard as essential.

I would support your proposals to relax still further the control of expenditure financed from capital receipts. There are strong arguments for giving authorities an incentive to dispose of surplus land and buildings and it should be possible to predict on a national basis the scale on which receipts will be used in order to accommodate the resulting expenditure within PESC totals.

However, I am opposed to the introduction of a single block allocation, which would deprive us of an important instrument of policy. I am all for giving local authorities greater autonomy but as you have recognised in your approach to the sale of council houses the national implications of some of their policies cannot be ignored. In the education service a single block allocation could lead to the misallocation of limited resources, for example in the field of higher education where institutions serve the needs of more than one area, and in general authorities

would be free to ignore the Government's assessment of the needs of each service reached after prolonged discussion culminating in Cabinet decisions. Having once abandoned this form of control we would never be able to recover it.

There is a further point that we ought to consider. I think it would be a mistake to assume that this and the other concessions which you propose will secure acceptance of the scheme as a whole. The local authorities have argued that your proposals for Block Grant will enable you to penalise persistent over-spenders and will thus exert a sufficient discipline to observe national cash limits for capital expenditure. It seems to me that there is a good deal of force in this argument and I now wonder if it is worth introducing a separate control over capital spending if it means making major changes in the original scheme, which we all accept.

I am sending copies of this letter to the other recipients of yours.

Yours sincerely

I A Show

MARK CARLISLE
(Approved by the Secretary of State and signed in his absence).

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

21 December 1979

Dear Michael,

CONTROL OF LOCAL AUTHORITY CAPITAL EXPENDITURE

You wrote to Geoffrey Howe on 17 December, setting out revised proposals for the new system of local authority capital expenditure controls. I understand that these are now being discussed by officials, and that you will be circulating a paper setting out your proposals in more detail for consideration at a meeting of MISC 21 early in January.

As you know, I take the view that it is very desirable, in the interests of improved public expenditure control, that we should achieve a more effective grip over annual local authority capital spending, however financed, and that suitable powers for this purpose should be included in the Local Government, Planning and Land Bill. This objective was reaffirmed by Cabinet on 13 December. We have always recognised that it would be difficult to negotiate such a scheme with the local authorities, and it is a nice political judgement as to how far the sort of changes you are now proposing will secure local authority acquiescence. For my part, however, the most important requirement, in considering possible modifications to the original scheme which we agreed in October, is that your department should remain in a position to administer the controls so as to deliver the firm annual cash limit which will be imposed on total local authority capital spending. I think it important that the primary legislation should leave sufficient flexibility to enable the scheme to be administered effectively and to be adjusted if this should appear necessary in the light of experience.

I am copying this letter to the Prime Minister, other members of Cabinet and Sir Robert Armstrong.

John Biffen

JOHN BIFFEN

CONFIDENTIAL

cc Transport,
Jubilee Line.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Michael Heseltine MP
House of Commons
LONDON
SW1

December 1st 1979.

Dear Michael

In your letter of 17 December to Geoffrey Howe you propose that the new capital control system should be amended to provide for a single block allocation which local authorities would have unlimited freedom to top up by the use of capital receipts (other than some housing receipts). I am afraid that that would cause me serious difficulties.

First, there would be an immediate problem in relation to London. We agreed in E(EA) in June that we should oppose the construction of the Jubilee Line. Although we have so far succeeded through persuasion, our ultimate sanction lies at present in the GLC Money Bill procedure. This is to be repealed when the new control system comes into force. I had been satisfied that the new scheme would leave sufficient control to secure our objective. But I doubt whether that would be the case under the more liberal approach you are now proposing. By lifting the restriction in the earlier scheme on the transfer of receipts between blocks it will make it very much easier for GLC to be able to raise sufficient receipts to finance the line. It will also - as, indeed, is the intention - create the strong impression that local authorities will be given virtually a free hand in deciding on their use of capital receipts. Even if we took a power to impose conditions on their allocations, it would be very difficult in those circumstances to explain why we were exercising it to control something financed entirely

from capital receipts and therefore in principle falling outside the control system.

The Jubilee Line although the first and most obvious case of this kind would not be the last. Other expensive urban transport schemes which (like housing) would generate a continuing demand for subsidy would certainly arise once the gap in controls became obvious.

The second problem is a more general one. Under the new proposals local authorities that have amassed substantial capital assets that can be disposed of will be able significantly to top up their allocations. If their intentions are known in advance, it may be possible to offset the effects to some extent by reducing the amounts of their net allocations in the first place. But there is a limit to how far this can be done. To the extent that it is not, it will mean that those authorities will be attracting to themselves resources at the expense of others, without any justification on the basis of need. This could have particularly unfortunate repercussions if a large volume of capital receipts were expended on one service, resulting in a relatively large reduction in the net resources available for allocation within that service.

I hope that it will be possible to find a way round these difficulties before the meeting of MISC in early January. I shall unfortunately not be able to attend that meeting, I hope Kenneth Clarke will be able to represent.

Copies of this letter go to those who received yours.

Yours ever,

Norman

NORMAN FOWLER

10 DOWNING STREET

PRIME MINISTER

Negotiations between Mr. Heseltine and the Treasury about the Local Government Bill are still in progress.

Here is Mr. Heseltine's latest proposal, which is designed to leave him with an attractive package.

The MISC group dealing with this will be meeting in the first week of January to reach conclusions.

MT

I also attach Mr Biffen's negative response.

21 January 1979

MAP (OR)
MS

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

17 December 1979

Dear Geoffrey

CONTROL OF LOCAL AUTHORITY CAPITAL EXPENDITURE

Item 1 (Extract) 2

Following our discussion in Cabinet on Thursday 13 December (CC(79)25th Minute 2), I have revised my proposals for the new system of capital expenditure controls. My Department is circulating a paper for interdepartmental discussion at official level.

As you know, the local authority associations have objected to our proposals on grounds both of principle and of practice. They object that the placing of ceilings on capital expenditure will deprive elected local authorities of the freedom to use revenue and capital funds to finance expenditure in the light of their own priorities. And, they argue that fear of the risk of 'ultra vires' expenditure will lead inevitably to a substantial underspend each year because the flexibility which we proposed to give in return for the control of the total is inadequate.

The problem is that we have not really offered enough freedom in return for the overall control. I intend to retain the very necessary proposal to control capital expenditure by making concessions to the local authorities which are entirely compatible with our philosophy that central government should set the guidelines within which authorities should be free to decide their own priorities.

In the light of the discussions which our officials have had with the associations, I believe that we must revise the scheme as follows:

(a) there should be a single block for each local authority for all the services covered by the scheme at each tier of local government;

(b) there should be unlimited freedom to use capital receipts except in the case of housing where, because of the original source of funds and of the likely magnitude of the proceeds from council house sales, the 50% restriction should still apply. Receipts from mortgages may also require different treatment.

(c) that we must also give consideration to raising the permitted level of switching between years.

The single block would supersede the provision for virement between services. Individual service departments would still be responsible for securing public expenditure provision for their services and for making allocations to local authorities but local authorities, if they wished, could use those allocations for other services - as they already can do with current expenditure. I do not believe that this would in practice result in major shifts between services in the foreseeable future, but to the extent that there were pronounced shifts by individual authorities, this would no doubt be reflected in subsequent annual allocations by the service departments concerned. For my part I am prepared to include all DOE services, including housing, in a single block covering all local authority capital expenditure, - subject to any necessary limitation on switching into housing because of specific subsidy implications - and I am inviting my colleagues to agree to do the same for their services.

If we concede the single block, we shall certainly come under pressure from the associations to reconsider the exclusion of the Home Office services (police, probation and magistrates' courts). Colleagues will wish to consider whether or not we should resist that pressure.

The associations have been particularly worried by our proposals to restrict the use of capital receipts and have argued that not only will our proposals remove a treasured freedom but they will provide a disincentive to the achievement of our policy for the disposal of public sector assets. In recent years capital receipts have financed only about 3% of all local authority capital expenditure but individual authorities find the facility a useful one. For this reason, therefore, I suggest that we must remove the restrictions which we proposed earlier except in the case of council houses and housing land.

I recognise that the scheme will present us with a major problem in delivering adherence to a single national cash limit covering all local authority capital expenditure. But this must be set against the fact that at the moment we have no real control and the difficulties are hard to predict. Nevertheless, I propose that the year to year tolerance should be increased to 15% but that we should be prepared to consider increasing this to 20% on application in respect of individual special cases.

I have received strong representations from the shire counties that the use of capital funds should be exempted from the proposed control system. I propose to reject this suggestion except where these funds have been accumulated to finance specific projects. Capital funds are built up mainly from revenue contributions and it is precisely the control of the use of revenue that we need to achieve, if we are to control total capital expenditure.

I am convinced that it is necessary to reframe the capital control clauses in the Bill both to avoid the impact of the draconian concept of 'ultra vires' expenditure and to bring out more clearly what local authorities are being offered in return for the imposition of the control of total capital expenditure.

It was agreed at Cabinet that a MISC group should be set up to discuss fresh proposals and that I should have further discussions with the local authority associations. Clearly we shall have to move quickly if we are not to delay the introduction of the Bill. Our officials are to discuss my Department's paper on 19 December. We shall have to reach conclusions at a MISC meeting in the first week in January.

I am copying this to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

3F

PRIME MINISTER
If this is remitted to a small group, Home Secretary and Chief Whip very much want Lord Thorneycroft included. In the exceptional circumstances, this could be helpful. It would not preclude Cabinet Office from providing secretariat. MAP 13/XII.

Ref. A0942

PRIME MINISTER

Parliamentary Affairs: Local Government Bill

You discussed the problem yesterday separately with the Home Secretary and the Chief Whip and with the Secretary of State for the Environment.

2. The Bill will in any case need a guillotine, whether or not it contains the controversial clauses about capital controls, unitary grant, and redistribution of planning powers.

3. Conservative local authorities have been frightened by the Bill's provisions on controls of capital expenditure, which indeed look dirigiste. Sir Frank Marshall has put the wind up Lord Thorneycroft and the business managers. Mr. Heseltine says that this is because he has not had a chance to explain to local authorities how he will operate the controls so as to achieve what he and they want.

4. If he succeeds in satisfying colleagues as he satisfied you, the conclusions might be:

(a) the provisions on capital controls in the Bill should be reformulated so as to make it difficult or impossible for them to be used dirigistically;

(b) agreement should be reached as soon as possible between the Ministers concerned (Treasury, Environment and other Ministers responsible for local authority matters) on the operation of the system of capital controls, so that the Secretary of State for the Environment can make his intentions known in good time before Second Reading;

(c) once he is in a position to do so, the Secretary of State for the Environment should make a speech on the new system, copies of which should be circulated to his Ministerial colleagues so that they can use it in their own constituencies;

(d) decisions on whether anything, and if so what, should be left out of the Bill before it goes into Committee should wait until after Second Reading.

5. Presumably, if the Bill is to be guillotined anyway, there is no advantage to be gained from taking bits out of it (and there is also the Secretary of State for the Environment's point that, if he takes bits out of it now in response to pressure, the critics will simply be enabled to concentrate the attack on what remains). If the business managers insist on slimming it, the Cabinet could remit the Bill for review to a group of Ministers under the Home Secretary's chairmanship, and comprising the Lord Chancellor, the Chief Secretary, the Chancellor of the Duchy of Lancaster, the Chief Whips, and the Ministers principally concerned with the contents of the Bill - the Secretary of State for the Environment, the Secretaries of State for Scotland and Wales, and the Minister of Transport.

Stephen Wright

for (Robert Armstrong)

12th December, 1979

cc Masterset

NOTE OF A MEETING AT 10 DOWNING STREET AT 1800 HOURS ON 12 DECEMBER, TO DISCUSS THE LOCAL GOVERNMENT BILL

Present:

Prime Minister
Secretary of State for the Environment
Sir Robert Armstrong
Mr C A Whitmore
Mr M A Pattison

****

The Secretary of State for the Environment explained that the capital controls provisions in the Local Government Bill were an essential part of Government strategy. He had agreed in Opposition to abolish them, and to use a ceiling approach as a quid pro quo. But the details of the arrangements for future capital control were still under negotiation with the Treasury. These would not appear in the Bill, and could not yet be announced pending agreement with the Treasury. He was therefore having to sell the least attractive part of his Bill without the compensations. It was essential to get the project control mechanisms sorted out. The Prime Minister said that the Bill read as a dirigiste piece of legislation. She was getting loud messages that the Party were very unhappy. The Bill would have to be shortened. Was it essential to deal with capital controls this year? Mr Heseltine said that he could drop 60 clauses, but the unitary grant and the capital control provisions were essential. He and his Junior Ministers had already planned a series of visits around the country to explain the intentions. He was confident that he could sell the package. He did need the Prime Minister's assistance in expediting agreement with the Treasury. But if he dropped the capital control provisions now, the local authorities would start to attack the unitary grant provision. Despite the constant

/claims

claims of all local authorities that they were running tight ships, he knew that this was not so. He was trying to steer a very difficult path to ensure that local authorities had to work with fewer central government controls, whilst he would need reserve powers to deal with the small proportion of unacceptable proposals. He also intended to require local authorities to provide clearer financial information to councillors for meetings, and to publish this information, thus allowing public reaction to force good management on the authorities. Copies of the documents would also go to his regional offices as a back-stop. In a vast majority of cases they would not intervene, although reserve powers would exist.

The Prime Minister said that Mr. Heseltine undoubtedly had the ability to sell his programme, and made it sound impressive. She was nevertheless facing a rebellion. The Home Secretary and the Chief Whip had impressed upon her the need to withdraw the capital controls provision. Mr. Heseltine would have to persuade them. He should also recognise that future Ministers might be able to use his reserve powers in damaging ways even if he did not propose to do so. If he was able to calm the fears of colleagues, and of the Party in the country, she would be content. But he would have to convince Cabinet colleagues, and he should be aware that he might still be forced to split the Bill, withdrawing some of the controversial elements as well as the 60 odd clauses which he had mentioned. She felt that the drafting of the Bill must have been at fault to allow these problems to arise.

In further discussion, Mr. Heseltine explained the detailed proposals which would provide much greater freedoms for local authorities, and argued that the main local authority reaction had not been as deeply opposed as the Prime Minister might have been led to believe. He would like to be able to leave the Bill as it was, less the 60 odd clauses to which he had referred, to undertake his campaign of presentation, and to leave any

/reconsideration

reconsideration to the time of Second Reading. Sir Robert Armstrong said, with the Second Reading some way off, it might be possible to prepare draft orders which would show the balance of the package, and to remove some of the dirigiste clauses from the existing Bill. This would leave a stronger position for the Second Reading, and would still allow for reconsideration if this seemed essential.

In response to the Prime Minister, Mr Heseltine explained that the Financial Secretary to the Treasury was not prepared to agree to abandon project control until he was satisfied on the details of future handling of public sector subsidies to local authorities. Mr. Heseltine appreciated the need for the Treasury to be so satisfied, but asked the Prime Minister to use her influence to speed up the reaching of agreement.

The Prime Minister invited Mr. Heseltine to maximise the number of clauses which he could withdraw, leaving in the capital controls provisions. He would then have to defend this position in Cabinet himself. She would arrange for a message to be sent to the Financial Secretary asking him to ensure that the Treasury and the Department of the Environment reached agreement on future capital spending sanctions as quickly as possible. (The Prime Minister later decided to raise this orally with the Chancellor of the Exchequer.)

The meeting concluded at 1635.

12 December 1979

cc Master set

✓ MAP

RECORD OF A MEETING HELD AT 10 DOWNING STREET AT 1530 HOURS ON WEDNESDAY 12 DECEMBER, TO DISCUSS THE LOCAL GOVERNMENT BILL

Present:

The Prime Minister
The Home Secretary
The Chief Whip
Sir Robert Armstrong
Mr. C.A. Whitmore
Mr. M.A. Pattison

****

The Home Secretary reported that, following his brief discussion of the Local Government Bill with the Prime Minister, the Chairman of the Party and the Chief Whip on 10 December, he had discussed it further with the Party Chairman and the Secretary of State for the Environment. He had then held a meeting, bringing in Sir Frank Marshall, Mr. Tom King, the Chief Whip, and the Leader of the House, in addition to Mr. Heseltine and Lord Thorneycroft. As a result of this discussion it was clear to him that Party Leaders at local authority level were now seized of the detailed implications of the Bill, and as a result were passionately and deeply opposed. Their main concerns were over capital controls, which they saw as a Whitehall strait-jacket. They also objected to the Unitary Grant proposals. The Prime Minister said that they did not have a case in respect of Unitary Grant proposals. Sir Robert Armstrong commented that the Bill would release project controls but increase block controls. The Prime Minister recalled that Sir Horace Cutler had no objections, having built up a capital fund from revenue.

The Home Secretary said that Mr. Heseltine had spoken to many local authority leaders. He had presented his proposals as allowing greater flexibility and striking at overspending authorities. This approach was popular. But when the details had been published in the Bill, views had changed. The local authority leaders were certainly agitated. The Home Secretary respected Lord Thorneycroft's wide experience in these matters, and Lord Thorneycroft saw the present

/course as

course as madness, leading to divisions in the Party in the country. There was every prospect that a number of Conservative backbenchers would feel obliged to go along with this feeling. The Prime Minister said that Sir Frank Marshall must set out in detail the objections, and the justification for them. The matter was being handled by a strong Ministerial team. The Home Secretary commented that the agitation was real, regardless of the basis for it. The Prime Minister said she would not accept attempts by the local authorities to dictate to the Government about the distribution of the Rate Support Grant. The local authorities had always wanted greater central funding with greater control in their own hands.

The Home Secretary said that events had now provided an opportunity to change the Bill. The Unitary Grant issues could be covered in a Bill this Session. Lord Bellwin was now conceding that the Bill was not adequate on capital controls. Mr. Heseltine had agreed to reconsider what parts of the Bill could be left out at present. He had conceded that, whilst life would be easier for him with the whole Bill, it was not essential to meet his undertakings to the Chancellor. In the Home Secretary's considered judgment, the Government would face great difficulty in attempting to pass the existing Bill in one go. The Prime Minister said that the 11 clauses on capital controls were clearly the central issue. Mr. Whitelaw said that Mr. Heseltine might want to remove other elements. In his view, the Bill should now be divided into two, with the essentials to be taken this Session and the remainder in the next Session. The Chief Whip commented that it was not now realistic to divide the Bill into two and introduce one part into the Lords.

The Home Secretary said that there were also objections to the switch of planning powers from the county councils to the district councils. This had a political element in cases where they would pass from Conservative county councils to Labour local authorities. He was facing such difficulties in his own constituency. The Chief Whip said that Lord Denham had already warned him that many Conservative Peers with local government experience would raise this in the House of Lords.

/After further

After further discussion of elements of the proposed legislation, the Prime Minister concluded that she should see Mr. Heseltine, without other Ministers, later in the afternoon. She would ask him to agree to slim down the Bill, to propose one covering essentials for the current Session of Parliament and defer other matters to the next. She would then commission the Home Secretary to convene a group of Ministers to include Mr. Heseltine and Lord Bellwin among others, with the Chairman of the Conservative Party, to settle the details of what should be included in the Bill. The Home Secretary's group should report to her in time for decisions to be taken at Cabinet on 20 December.

12 December 1979

Local Govt.

BACKGROUND NOTE

✓MAP

THE LOCAL GOVERNMENT, PLANNING AND LAND BILL

The Local Government, Planning and Land Bill, published this week, marks a significant advance in the relationship between central and local government. It has four central themes:

i. a better framework for the distribution and control of public funds in place of the present unsatisfactory system;
ii. the withdrawal of central government from detailed scrutiny of local government;
iii. improvement of the general level of information available to councillors and ratepayers to help them play a full and constructive role in their authorities;
iv. better value for money in local government.

The better framework for local government finance will encourage the best use of resources. The new block grant system will relate grant more closely to standard spending levels so that authorities who chose to spend more will no longer automatically get an equivalent increase in grant. The new broad control of capital expenditure will enable us to prescribe ceilings for expenditure but within those ceilings it is intended that local authorities should have more freedom to determine their own spending priorities, and that we should reduce substantially the detailed project control that exists today.

Withdrawal of central government is marked by the removal - or substantial relaxation - of a large share of the 300 unnecessary controls so far identified (the rest are either included in the Education Bill or will be covered in the forthcoming Housing Bill). 38 clauses and 13 schedules are concerned with the repeal or relaxation of controls: the repeals include 3 Acts of Parliament and parts of 59 others. We have already drastically cut down on circulars to local authorities and have begun a major review of their statutory duties.

Better information for councillors and ratepayers is the key to strengthening local democracy. The Bill will give power to ensure that essential information is freely available including where appropriate comparative information about the performance and efficiency of different authorities. Direct labour organisations will become properly accountable and will be tested in competition

with private contractors.

Value for money will also result from getting rid of duplication between local authorities in the field of development control. This will also speed up the planning system and make clear to the public where responsibility for decision lies. The new registers of public sector land will make it easier to see what land is potentially available for development and will ensure that surplus land gets released. The repeal of the Community Land Act will remove an irrelevant obstacle to development. And in Merseyside and London's docklands, where there are special problems, new urban development corporations will seize the opportunities for regeneration that exist to make the most of the resources lying there.

The measures are intended to help make local authorities more efficient; local democracy more effective; and to clarify the roles of central and local government.

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

Tel No: 233-8744

6 December 1979

PERSONAL

file

BK

10 DOWNING STREET

From the Private Secretary

SIR KENNETH BERRILL, K.C.B.

CABINET OFFICE

BF 2-1-80

The Prime Minister was grateful for your minute of 23 November, about relations between central and local government.

As I mentioned to you today, the Prime Minister has now decided to discuss the subject with a group of Ministers on 8 January. The decision to go ahead with the discussion now was provoked by a paper from the Chairman of the Conservative Party, and a rejoinder from the Secretary of State for the Environment. I attach copies of both these papers. The Prime Minister would be most interested in your reaction to them but, given the political genesis of this discussion, she would prefer that they were not circulated elsewhere within CPRS. The Prime Minister has invited the other Ministers who have seen the papers to submit written comments ahead of the 8 January meeting.

These papers bear on the major question of the central/local financial relationship identified in your minute.

The issue of the future of the rating system, to which you also refer, is now to come to Ministers next spring, on the basis of the options study commissioned by Mr. Heseltine. The Prime Minister believes that an effective programme to improve efficiency and reduce waste at local level would be of considerable political value. As you will know, there was some discussion of this earlier in the year, and the Prime Minister was disappointed with the initial thoughts offered by several Ministers. She had intended to have a meeting with Sir Derek Rayner and Sir John Hunt in the autumn to consider how to approach this. In the event, that meeting did not take place, and it is unlikely that there will be an opportunity to reinstate it before this discussion with Ministers. I know that the Prime Minister would, however, be grateful if you, in consultation with Sir Derek Rayner and the Cabinet Office Secretariat, would care to offer a note on the practicalities of effective and feasible action in this field. The discussion on 8 January could then be used to take account of the several strands of thinking about these issues to which you refer in your minute.

M. A. PATTISON

5 December 1979

GB

PERSONAL

1.

See LOCAL GOVT October 1979

PRIME MINISTER

Here is a helpful paper from Sir Kenneth Berrill about relations between local and central government. Sir Kenneth Berrill has taken a look at this following our intervention to prevent Mr. Heseltine going ahead in isolation with his proposed Accounts Commission for Local Government.

Sir Kenneth lists a number of pieces of work now in progress, and suggests that there are three major questions to be considered by Ministers. His second question, on the future of rating, will be handled through the options review which Mr. Heseltine has now initiated. This will come to Ministers in the spring. His first and third questions will be relevant to your meeting with Lord Thorneycroft and certain Ministers in January.

It would be helpful if I could show Sir Kenneth the paper from Lord Thorneycroft and any responses to that from Ministers. We could then invite Sir Kenneth, with Sir Derek Rayner and Sir Robert Armstrong, to bring together any advice they wish to offer on the three issues identified in Sir Kenneth's note.

MAP

Yes - but not the whole of CPRS.

30 November 1979

Local Gov't MRJ

cc HO
Tsy
DOE
DES
DHSS

10 DOWNING STREET

THE PRIME MINISTER

B/F 7-1-80
for MRJ

26 November 1979

Dear Peter,

Thank you for writing to me on 15 November about the relationship between national and local government.

I agree that we should have a discussion on these matters. I would prefer to leave this until after Christmas, given the tight Parliamentary and Government timetable in the next few weeks. I suggest that you and Frank Marshall should come to No. 10 at 5 p.m. on Tuesday 8 January. I am sending copies of this letter to Willie Whitelaw, Geoffrey Howe, Michael Heseltine, Mark Carlisle and Patrick Jenkin. I hope that they can join the discussions, and I would be grateful to see any written comments they have in advance of the meeting. You will already have seen a copy of Michael Heseltine's to me of 21 November.

If this timing is likely to be difficult, please get in touch with Caroline Stephens here to fix an alternative.

Yours ever

Margaret

The Right Honourable Lord Thorneycroft

JS

Qa 04354

To: MR LANKESTER

From: SIR KENNETH BERRILL

See Local Govt October 1979

Relations between Central and Local Government

1. The Secretary of State for the Environment has made a proposal for an Accounts Commission for Local Government. The Prime Minister has said that she would like to have this proposal considered in the wider context of improving the management of resources by local government, and I believe she had in mind a discussion with the Ministers concerned and with Sir Derek Rayner.

2. There is indeed a lot going on in the area of the management of resources by local government. I attach a list of ideas which we in the CPRS know to be running and there may indeed be others.

3. On this list, items (a) to (h) taken together would amount to substantial changes in the central/local government relationship. The first four items point largely in the direction of greater autonomy while the next four (and Mr Heseltine's latest proposal) aim to impose tighter financial disciplines.

4. But none of them tackles the basic central/local financial problem emphasised by Sir Derek Rayner (local government is responsible to a local electorate but central government provides the bulk of its funds).

5. It is, in a way, strange to find that this central issue is absent from the list (e.g. when the Inland Revenue is computerised, would local income tax provide the answer?). No

6. So we in the CPRS would welcome the discussion the Prime Minister has in mind as something which might pull together the threads of the work listed in the annex and give it all focus. If this meeting did take place, the basic questions which we think might be considered by Ministers are -

(i) Does the Government contemplate in the medium/longer term any radical change in the central/local financial relationship (Sir Derek Rayner's fundamental question)?

(ii) Whatever the answer to (i), what is the future of the rating system, and what are the practical possibilities for alternative sources of local government finance (if any)?

(iii) Do Ministers wish to bring the various proposals in hand together as part of a broader strategy? There seem to be three general themes behind the proposals - first, to give much greater discretion to local authorities to allocate their own expenditure and decide their own priorities; second, to impose tighter central government controls on total expenditure (while 'interfering' much less on detail); and third, to impose more effective and public financial accountability.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

23 November 1979

Att.

(a) Central government controls over local government: White Paper published in September proposing abolition of some 300 controls (comments asked for by mid-October).

(b) Control over volume of circulars, etc. sent to local authorities.

(c) Proposals to relax central Government control on the allocation of capital expenditure by local authorities (while tightening controls on total capital expenditure).

(d) Proposals for reform of RSG from 1981/82 - unitary grant, and disciplines on high spenders.

(e) Review of statutory duties imposed on local authorities (are they necessary? Should they be discretionary?), and scope for more charging (increase of existing charges or new charges).

(f) Review of scope for contracting out/privatisation of local authorities' functions in whole or part. (This is linked to our review of scope for contracting out other public sector functions.)

(g) Proposals to require local authorities to publish more statistics relevant to their cost effectiveness.

(h) Expenditure Committee's recommendation for amalgamation of Exchequer and Audit and District Audit.

(i) Sir Derek Rayner's note to the Prime Minister on efficiency and waste in local government (on which discussion was postponed to December some time). This raises the fundamental issue of local government finance and the unsatisfactory nature of the current arrangements. Short of this, it raised issues of inspection (especially the education inspectorate), more effective district audit (relevant to Mr Heseltine's proposal), and better dissemination of good and bad practice.

1.

PRIME MINISTER

cc Mr Wolfson

Local Government

You have agreed to see Lord Thorneycroft and Sir Frank Marshall early next year, with the Ministers to whom Lord Thorneycroft circulated his letter at 'A'. There is a reply for you to sign in the signature folder.

You should be aware of two further papers relevant to this. Flag B is a commentary by Mr. Heseltine on several of the points raised in Lord Thorneycroft's paper. He challenges Lord Thorneycroft's central argument, that the long term effect of the Government's policy is to switch responsibility from local to national hands.

See Local Govt (Rating) May 79

Flag C is a letter from Mr. Heseltine to the Chancellor proposing a study on the future of rating, to be considered by Ministers next spring.

The meeting with Lord Thorneycroft and others could be a good opportunity to return to the waste and efficiency questions in local government. An effective and publicised Government campaign in this direction should be politically welcome.

Have signed letter in other folder

Content that Mr. Heseltine should set in hand his study on the future of rating, in order to present a range of options to Ministers next spring?

— Yes - go ahead.

MAP

ab.

23 November 1979

PRIME MINISTER

You wanted to meet Lord Thorneycroft and others to discuss national/local government relationships. You asked for the meeting to be after Christmas. (The papers are in Folder 1, for other business.)

I attach a letter for you to send to Lord Thorneycroft in reply to his request for a meeting. We have suggested 5 p.m. to allow a reasonably open-ended discussion. It will be difficult to dispose of the issues raised by Lord Thorneycroft - and challenged by Mr. Heseltine - in a half hour or one hour session.

MAP

23 November 1979

C

1

Prime Minister

LOCAL GOVERNMENT

1. I have seen Peter Thorneycroft's note to you of 15 November. I should like to comment briefly on the main points.

2. I agree with Peter Thorneycroft about the importance of local democracy and the need to remove unnecessary central government control. But I cannot accept the interpretation of my actions towards local government since taking office. Local government is about ratepayers and voters as well as local councillors and their officials. And all our proposals have been considered in the appropriate Ministerial Committees after personal discussion with our local authority association leaders. Tom King and I have also met a wide range of individual authority leaders.

3. Local government has grown ever-larger over the last generation. It now employs about one twelth of the work force and accounts for about one quarter of all public expenditure. Many elected councillors understand imperfectly the system for which they are responsible. Too often, Treasurers rather than elected members fix the rates. Even less do ratepayers and voters understand what is happening within local government. Like so many British institutions, in both the public and private sectors, there is not enough real accountability.

4. My approach has been to define what national government should do - and we were elected to determine national priorities no matter how unpopular - and then let local government get on with it on a truly accountable basis. I think this is evident in all the initiatives to which Peter Thorneycroft refers.

BLOCK GRANT

5. The present rate support grant system is indefensible - only a tiny handful of people inside and outside my Department understand it; it stimulates local government expenditure; it is deeply resented by our own councillors because profligate authorities are able to increase their grant at the expense of others.

6. The new block grant system will be more understandable to the ratepayers, although naturally some of the mechanisms will be complicated since we are trying to be fair to nearly 500 local authorities in different circumstances. It should certainly stop overspending authorities gaining at the expense of others; indeed it will discriminate against them. The amount of grant individual authorities will get will be determined by a better form of needs assessment and standard rate poundage schedules. I have deliberately not tied our hands on these two variables in the Local Government Bill. They will be the subject of intensive consultations with the associations.

7. I believe that the criticism which exists at present among our own local authority supporters is based on doubt and fear of the unknown, which I hope to remove during

the process of consultation. And, over the last 6 months, Tom King and I have discussed this issue with the leaders of the associations. They have been kept fully in touch with our proposals and have influenced their content.

PUBLICATION OF INFORMATION

8. The Local Government Bill will also include provisions requiring local authorities to publish information and periodic reports about the performance of their functions. This is crucially important. I believe that, like block grant, these provisions will increase the accountability of local authorities and will act as a spur to increased efficiency. For the first time all ratepayers and voters will be in a position to compare cost and performance of their own authority with similar authorities. I want also to achieve similar comparisons in some of my own Department's activities, eg on handling planning cases.

CAPITAL CONTROLS

9. I have gone forward with the proposal in the Bill for controlling local authority capital expenditure only after much thought. I believe that we must have this power as we face a period of severe restraint in local authority expenditure. The last Labour Government tried, but withdrew in the face of fierce opposition from local government.

But our proposal is different. We propose - by way of "quid pro quo" - to relax specific project controls, to allow scope for capital receipts to supplement capital allocations, and to allow for virement between major blocks of expenditure.

10. Local government may believe that we have not conceded in our consultation document enough freedom within the proposed capital control system. This will be the subject of consultations. I am anxious to give the authorities as much room for manoeuvre within the capital control system as possible, subject to the agreement of colleagues.

RATES

11. We committed ourselves to the abolition of domestic rating in our Manifesto, although we made it clear it would have to take lower priority than reduction in income tax. Consequently, we cancelled the rating revaluation during 1982 and will be giving legislative effect to this - together with operational adjustments to the rating system - in the forthcoming Bill. But nothing we have so far done pre-judges the issue. Public expenditure problems still lengthen the time-scale within which we must take decisions. And we will only make progress after careful thought. I am proposing to set up a Working Party to look at this. When it has completed its work next year I will put a paper to colleagues. If we decide that there is an acceptable alternative to rates and if we decide to legislate, we should most certainly enter into detailed discussions with our party colleagues in local government before we reach final decisions.

UDCs

12. I know that the proposal for Urban Development Corporations has been criticised by some people - especially those who will lose power. This is perfectly understandable. But proof of the pudding is in the eating. Local government has not been able to provide the machinery for tackling the problem of such large scale urban decay effectively because of internal tensions. I enclose a copy of Oulton Wade's private assessment. I fully agree with his views.

OTHER ACTION

13. I am also taking every opportunity to clear the path for local government within the framework of national policies. The flood of Whitehall circulars has dried up to a trickle. I have put in hand a review of Statutory Duties designed to weed out those which are no longer relevant and preserve those which are useful, on the basis of as much freedom for local authority decision as possible.

CONCLUSION

14. I have reflected long and hard on Peter Thorneycroft's letter. I can see that some of the measures I have in hand could be represented as a shift of power from local to central government. But I would make two points. First, I recognise that a future central government unsympathetic to local government could use these measures

in a more 'centralised' way than we envisage. But such a government, if so inclined, could pass its own 'centralist' legislation to achieve this end, whatever we do now. And we have seen that the Labour Party used the existing system for its own purposes. Second, I believe that the relationship between central and local government which we inherited is unhealthy because the roles of central and local government have become obscured. I think that the new measures will clarify the position, and will make central and local government more accountable to their respective electorates. I therefore am convinced that we have much to gain and little to lose.

15. We need to turn around attitudes to and in local government as an integral part of our economic strategy. The Bill to be published next week is part of that process.

16. I am copying this to Peter Thorneycroft and to the other recipients of his letter of 15 November.

MICHAEL HESELTINE

21 November 1979

6F.

MEMO FROM W OULTON WADE TO MICHAEL HESTLETINE 12th November, 1979

Comments on Proposals for Merseyside U.D.C.

Proposals have the support of Industrialists and Small Businessmen in Merseyside.

The Conservative Group of the Liverpool City Council are generally in favour.

Many Conservative Merseyside County Councils favour the plans privately.

The Mersey Dock and Harbour Company are now privately in favour of the proposals.

Publicly the Mersey County Council are against the proposals and the Mersey Dock and Harbour Board are still publicly expressing their lack of enthusiasm.

Sir Kenneth Thompson is officially against the proposals but on the other hand has always been a strong believer in Planned Development of the Dock area.

The Development of Merseyside and Liverpool has long been plagued and held up by petty squabbles between the various factions concerned:

City Council
County Council
The Docks and Harbour Board
Economic Bodies
Outside Authorities

There is complete planning stagnation in the Area.

To be effective the new U.D.C. :-

1. Must be free of all Local Planning Controls.

2. Must not create its own planning restrictions.

3. Give full support and encouragement to any application it receives to establish businesses.

4. Sell off the derelict land at current market price, that is by auction.

5. Provide the best possible communication system from the Development Area to the rest of the Country.

6. Ensure that new businesses and any developments are not hampered and delayed by lack of Co-operation from the Water Authorities, Electricity Boards, Gas Boards and any other Statutory Boards and Authorities.

7. Because of established positions of many of the existing Official Bodies on Merseyside the U.D.C. should be run by men not previously associated with these Bodies or who represent particular interests.

There should not be for example the statutory CBI man; the County Council Man; the TUC Man or a Social Worker etc.

The U.D.C. should be run by men picked on individual merit only.

1.

B

From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

Telephone: 01-222 9000

PT/SO

SECRET

15th November, 1979

Prime Minister

Are you ready to see both Thorneycroft and Sir Frank Marshall? If you are, I suggest that you should have with you the Ministers to whom both Thorneycroft has copied his letter. Do you agree?

Yes - we should talk all much do better - but of the times. MCP 16/XI

To/

The Prime Minister
The Rt. Hon. Michael Heseltine, MP.
The Rt. Hon. Sir Geoffrey Howe, QC., MP.
The Rt. Hon. William Whitelaw, CH., MC., MP.
The Rt. Hon. Patrick Jenkin, MP.
The Rt. Hon. Mark Carlisle, QC., MP.

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1. I, and my Vice Chairman Local Government, Sir Frank Marshall are viewing with increasing concern the developing relationship between National and Local Government under a Conservative administration.

2. To put the matter briefly and succinctly the Government's present policy is to speak fair words to Local Authorities about their local responsibilities whilst pursuing policies calculated in the long term to bring about a fundamental switch of those responsibilities from local to national hands.

No - transport & school meals -

3. We recognise that it is not for us to determine policy and that if this trend has been firmly determined upon by the Cabinet we must accept it. We do not consider however that we should stand aside and watch these events take place, as it were, by accident and without any firm or clear Government decision to achieve them.

4. We would therefore welcome an opportunity to discuss these matters with you and any colleagues you thought appropriate. Sir Frank Marshall whom you fairly recently appointed to his post in the Central Office is one of the most experienced practitioners of Local Government in the country, has been touring widely in recent weeks, and can report opinion from the grass roots as well as express views on the developing scene.

2/....

5. If I have to summarise a complex subject in a few sentences I think that I would do so as follows.

The Government is naturally concerned with Local Government expenditure, its impact upon the economy, and in finding a way to avoid subsidising the most profligate authorities. We share these views. We are however also deeply concerned with the constitutional position of Local Government in this country. While Labour was in office Conservative Local Authorities provided a partial but important check to the advance of Socialism. A serious weakening of the role of Local Government or a switch of its responsibilities to the centre would be handing new and extremely dangerous powers to any future left wing administration. It would be rash to assume that no such administration could ever again assume office in this country.

6. The centralising steps at present in train are as follows.

(a) The Block Grant to be based in part on the Labour Government's Unitary Grant proposals. This represents a change from the present rate support grant and it is fairly easy to demonstrate the need for some adjustments in that system. The intention of the Block Grant System is likely to be announced, however, without any clear knowledge or understanding as to how that grant is to be calculated and the Local Authority Associations have received only very general guidance about the nature of the grant in a consultative letter. We suggest that final decisions on the introduction of such a system should await a much fuller discussion and enquiry.

(b) New arrangements for the central control of capital expenditure. A Paper was put up by Mr Peter Shore while he was Secretary of State. It was rejected by the Local Authority Associations. A very similar paper has now been circulated to the Associations with an extremely short period for consultation. We know that it is deeply resented by the Shire Counties. It represents the assumption of sweeping powers by the Department of the Environment which future Governments can exercise. We advise a much longer period for consultation.

(c) The rating issue. This vexed question is dealt with in papers by Sir Frank Marshall attached. Our present technique appears to be to allow it to collapse rather than to abolish it. The Secretary of State has announced a decision to postpone the property revaluation and the Minister of State at the Party Conference has explained this by linking it to a future intention to abolish rates. No substitute for locally

collected revenues is known to exist. A system of local government without any revenue raising powers would be reduced to the status of an agent of Central Government. The end of domestic rating without such a substitute would be the end of effective Local Government in the United Kingdom. In the long term Councillors and local democracy would become redundant and the service would be administered by officials.

7. These are grave matters that raise large issues for the Treasury. Faced with out present difficulties on the public sector borrowing requirement I simply cannot visualise a scenario which accepts the loss of very substantial local revenues and a switch to central funding.

8. The constitutional issue is graver still. I must not protest too much but I fear we are at the moment drifting down a very dangerous road in the field of Local Government. A field I may say in which the knowledge of many in the Conservative Party is not particularly outstanding. My plea is that we should seek to decide much more clearly what it is that we are trying to do before we advance any further.

9. There are widespread consequences in the imperfect and limited process of consultation hitherto. There are grave dangers for the constitutional balance between Central and Local Government. There are in addition equally serious consequences that the withering of Local Government would have for our Party Organisation. We rely on interest in Local Government to motivate many of our constituency activists and the elimination of local councillors and the interest attached to their elections would damage our Party at its grass roots. This will have implications for the efficiency of the machine which fights Parliamentary elections.

It would not I believe be impossible in consultation with our friends in Local Government, and provided that we defined clearly the objectives which we had in mind, to find ways effectively to reach them. The measures at present proposed contain very little of Conservative philosophy and rather too much of plans already floated unsuccessfully by the last Labour Government.

Thatcher.

Local Government in England is the only remaining element of local autonomy or self government.

L.A. are the only elected political bodies outside Parliament and are the means by which people can participate in decision-taking affecting their own area.

Local Government therefore promotes domocracy since it acts as a handy focus not only for decision-making at the level closest to the public (the Consumers) but as a "safety-valve" for complaint and criticism and even for constructive suggestion by the public to their local Councillor who invariably lives and works amongst them and is "one of them" and generally "at hand" in their daily lives.

The decision-takers are therefore close to and "of" the electors and public they serve and have to them a direct accountability unmatched by the Parliamentarian.

Rating is a well-established local fiscal tool and as a taxation of property to provide local revenue, has its origins in the Poor Relief Act of 1601. The rate-levying process is regarded as the very touchstone of accountability to the electorate - even though the latter may not altogether understand that the present Grant distribution arrangements can often operate to affect Rates in a way quite disproportionate to any effect thereon of a Council's decisions.

In addition Government interventions in the Rating field have brought about shifts in the incidence of rates from place to place and between classes of ratepayers that have meant fluctuation in Rate demands having no evident connection with the spending of the authorities concerned.

Government's financial subvention of Local Government is determined annually by the Rate Support Grant. The three elements of this Grant are Resources, Needs and Domestic Relief. To take them in turn

(a) <u>The resources element</u> is calculated by applying the local rate

poundage to the local deficiency in rateable value so in effect the Government acts as a ratepayer to make up the deficiency in local rate yield.

(b) The needs element is meant to compensate for differences between authorities in the amount they need to spend per head of population. Unlike the resources element, the needs element is a fixed amount of Grant which does not vary with an Authority's actual rate poundage and expenditure in a given year, though its formula is based partly on an analysis of past total expenditure.

(c) Domestic Relief: Under this element, every Rating Authority receives the sums needed to reimburse it for the relief given to domestic ratepayers of a rate in the pound prescribed annually by Government. The Government elected in 1974 decided to distribute the sum set aside for domestic relief in proportion to domestic value (and not to proceed with a scheme of variable domestic relief prepared by the previous Government). This had the effect of reinstating an increase in grant assistance to the urban Authorities.

It is apeculiarity of the resources element that the bigger spending authorities receive more and the thriftier authorities receive correspondingly less of this grant. If an authority's Rate poundage is raised, its grant will increase. If it is lowered, its grant will decrease.

It is understood that it is this and other injustices caused by certain of these three elements which Ministers are trying to correct by the possible introduction of a Unitary grant in which the needs and resources elements would no longer be separately identified.

Its application will have the effect of cutting off (after some tapering) the Unitary grant to Local Authorities who continue to increase their spending and to throw the balance onto the Authority concerned and hence onto its ratepayers with a corresponding lower Government Grant level than under the present

system. This it is hoped will more directly reflect to the Electorate accountability and responsibility of the Local Authority concerned.]

Criticisms of the Rating system are that it is regressive, that there is no apparent link between the sum demanded and the ratepayer's ability to pay, that the system takes no account of the calls on local services made by various types of household, that it is too narrowly based (being based upon ownership or occupation of property), that the variations of assessment of similar houses in similar localities of different Local Authorities is incomprehensible.

The introduction of the domestic element of the Rate Support Grant has had the effect of rating domestic and non-domestic properties at different poundages. Furthermore the introduction of rate rebates (while helping rates to be more acceptable) have weakened the basis of the rating-principle. Together these two factors have undermined public understanding and together with the variable distribution of the Rate Support Grant have tended to weaken local authority accountability. Possibly the most compelling criticism is that Revaluations have been repeatedly deferred (the Revaluation currently in progress having been abandoned).

The pro-Rate lobby point to the fact that the system is certain, simple, identifiable, understandable, not susceptible to avoidance or evasion, that it promotes accountability, and yields the next biggest revenue to Income Tax. The administrative cost of Rating is modest in proportion to yield. Rates currently represent no more than 2½% of personal disposable income. They became suddenly unpopular only because of the great misfortune that Local Government reorganisation coincided with a sharp oil-led inflationary period. With this exception average rate bills have not been increasing dramatically in line with or relative to either income or inflation.

Abolition of Domestic Rating (with no substitute or

alternative source of local revenue) would make it virtually impossible to promote greater administrative efficiency (as decentralisation should at present allow). If all public services were provided directly by Government, and Ministers were formally accountable to Parliament for all local decisions, the machinery of Government would become overloaded, and blocked. Local democracy would suffer. Local Government Councillors (and therefore local elections) would no longer be required and important and sensitive local services like Education, Planning etc., could and would be run by unelected officials who would be directly answerable to Government, possibly with every Local Authority having its in-house Ombudsman to deal with complaints from the public whether of maladministration or otherwise.

In addition if the abolition of rating was accompanied by no substitute or alternative form of local revenue-raising capability, it follows that instead of funding say 60% of Local Government spending, Government would have taken a conscious decision of 100% funding, albeit with hopes for a contained overall total expenditure.

The relevant figures 1979/1980 are as follows:

	£BN
Rateable values at 1st April 1979:	
Domestic	3.5
Non-Domestic	3.7
	7.2
Yield of Rates (estimated 1979/1980)	
Domestic	2.8
Non-Domestic	3.3
	6.1

The importance of the Rates yielding £6.1 BN is reflected by the product of other national taxes as follows:

	£BN
Income Tax	19.7
VAT	8.3
Corporation Tax	4.9

(these figures are taken from the Chancellor's Financial Statement and Budget Report 1979)

These comparative figures put into true context the size of the problem and the financial consequence of abolishing the whole of the Rating System, without replacing it with an alternative local revenue-raising capability.

Assuming this scenario, (however improbable in view of Government's likely unwillingness to take on board additional public expenditure of this order) Local Authorities would then be pure agencies of Central Government. The safety valve of participatory involvement which allows adjustments to be made to accommodate pressure or dissatisfaction before they build up to major proportions would have gone- and with it, one of England's most historical and potent civilising influences - Local self-Government.

PART 1 ends:-

H(79) 10th Mtg Min 5. 18.9.79

PART 2 begins:-

Lord Thorneycroft to PM 15.11.79